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RUEHJO/AMCONSUL JOHANNESBURG 6066
RUEHTN/AMCONSUL CAPE TOWN 3866
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11. (U) Summary. This is Volume 7, issue 03 of U.S. Embassy Pretoria's South Africa Economic News weekly newsletter.

Topics of this week's newsletter are:
- Growth Lifts Business Mood to Record High
- Domestic Steel Sets New Records
- Infrastructure Not Keeping Pace
- SA Granted a R8.4bn Loan
- Manufacturing Output up 5.4%
- Group to Fund Cheap SA Housing
- SA Economy '64% Free'
- Gold Propels JSE to Near Record Peak
End Summary.

Growth Lifts Business Mood to Record High

12. (U) Confidence in the South African economy climbed to a record high in December, due to optimism about SA's growth prospects. The South African Chamber of Business (SACOB) Business Confidence Index rose to a record high of 103.5 in December 2006, while the Reuters Econometer, a measure of economic confidence, climbed to its highest level since May 2006, at 263.74. Analysts said the outlook for economic growth remained positive, as infrastructure spending is expected to rise in the run up to the 2010 world Cup. Economists forecast growth of 4.3% for 2007 and 4.6% for 2008. Lower oil prices should restrain inflation, and analysts project that CPIX inflation (consumer price index excluding mortgage costs) will be 5.3% in 2007 and 4.8% in 2008. On the other hand, the current account deficit and higher interest rates remain worrisome. The current account deficit rose to a record high of 6.1% of GDP in the first quarter of 2006, after which it narrowed to 5.2% in the third quarter. (Business Day, January 12)

Domestic Steel Sets New Records

13. (U) South Africa's five steel producers dispatched 5.3 million tons of primary carbon steel products to the domestic market during 12006. This was the highest total on record and is 26% higher than the 4.2 million tons delivered to the domestic market in 2005. Imports of primary steel products into SA increased to 456,000 tons for the first ten months of 2006, giving an annualized figure of

540,000 tons for the full year. This represents an increase of more than 60% over the 336,000 tons for 2005. This is the highest level of imports for 30 years. Based on these projections, domestic consumption of steel should total about 5.8 million tons for 2006. This is an increase of 27% over the 4.6 million tons consumed in 2005 and 10% higher than the previous record of 5.3 million tons in 1981. The record demand for steel, cement and other construction materials is indicative of the economic and construction boom that the country is experiencing.

Infrastructure Not Keeping Pace

14. (U) Speaking on South African Broadcast Corporation (SABC) television on January 15, President Thabo Mbeki said that infrastructure in South Africa has not kept pace with economic growth. "For example, we thought we had spare capacity, but now we have a shortage of electricity supply as it did not keep up with the demand," Mbeki said, promising that the government would invest more money in roads, ports, railways and electricity supply to keep up with economic growth. "It is a problem, but it is a good problem," he said. According to the President, the private sector would also be encouraged to become involved. Mbeki acknowledged that local governments had great difficulty making capital investments in infrastructure. "We can have good national strategies and plans and even the money, but if local government doesn't implement these, it doesn't work," he said. He explained that the SAG is dealing with the problem by calling experts out of retirement and looking abroad to recruit people with the necessary skills to implement the government's plans and strategies. (Business Day, January 16)

SA Granted a R8.4bn Loan

15. (U) The European Investment Bank (EIB), the development bank of the European Union, will lend South Africa 900 million (\$1.2 billion) for public infrastructure projects and private sector

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investment over the next seven years. "The use of the 900million will be focused on infrastructure projects of public interest - power, water supply, sewerage and communications - and support for private sector investment, with substantial development values including small- and medium-scale investments," the EIB said in a statement. The loan agreement with South Africa covers the period 2007 to 2013. The EIB also said it would grant power utility Eskom a loan of up to 300 million (\$390 million) to help improve power transmission lines from power stations in the north of the country to the Western Cape province, which has suffered chronic electricity outages. The loan to Eskom will be repayable over 25 years. Under past agreements, the bank has loaned South Africa 1.5 billion (\$2 billion). The EIB uses its top-notch credit rating to borrow funds on capital markets at low rates and best terms, which are then passed on to recipients on a cost-recovery basis. (News 24, January)

Manufacturing Output up 5.4%

16. (U) Growth in manufacturing production slowed by 5.4% in November after growing 7.7% in October, as higher interest rates and a relatively stronger rand put the brakes on growth in some sectors. The South African Reserve Bank (SARB), which has hiked interest rates by 200 basis points so far in the current cycle, is expected by some analysts to hike them another 50 basis points next month. Higher interest rates are expected to have a slightly negative effect on manufacturers supplying the retail sector, analysts said. The manufacturing sector, which has in the recent past struggled to survive as the rand strengthened to about R6 to the dollar, could get some relief from a weaker rand in 2007. The rand weakened about 9% against the dollar in 2006 and 4% so far this year. Analysts believe that the Reserve Bank will leave interest rates unchanged once the rand settles above R7 to the dollar and the inflation outlook improves. If this happens, growth in the manufacturing sector should firm in 2007. The manufacturing sector is the economy's second-largest sector, accounting for just more than 16%

of gross domestic product. (Business Day & News 24, January 12)

Group to Fund Cheap SA Housing

17. (U) International Housing Solutions (IHS), an international joint venture between MuniMae of the U.S. and Irish property group Howard Eurocape, has expanded its operations to the African continent, with its head office for Africa to be situated in Johannesburg. With extensive experience financing affordable housing around the world, IHS aims to bring foreign capital and expertise to South Africa to boost the supply of affordable housing for low and moderate income families. Elize Stroebel, who will head the South African operations, said IHS has conducted extensive research into the South African market. "Figures from the SA Banking Association show a growing demand for housing which local financial institutions and developers are unable to meet, causing the current housing deficit to grow by about 180,000 units each year," Strobel said, adding, "Short-term finance has proved to be a major stumbling block in the construction of more of these houses.". Initially, IHS aims to help finance homes for households earning between R3 500 (\$480) and R8 200 (\$1,120) per month. Although the government has subsidized the construction of some 2.2 million homes in SA since 1994, a further 2.4 million homes are needed, according to an October 2006 report from the National Treasury. (Inet-Bridge, January 15)

SA Economy '64% Free'

18. (U) According to the Heritage Foundation's Index of Economic Freedom, South Africa ranks 52nd among 157 ranked countries with a score of 64.1 points (64.1% free). That makes the economy "moderately free." The index ranks each economy according to the level of government intervention, trade and monetary policy, property rights and regulations, as well as labor freedom. South Africa is ranked 3rd out of 40 countries in the sub-Saharan Africa region (Mauritius and Botswana are rated ahead of South Africa). The report lauded South Africa's financial system as the most developed in Africa. It also said the country maintained fairly high levels of business freedom, fiscal freedom, monetary freedom and freedom from government intervention. Inflation is low and tax revenue as a percentage of GDP is moderate. Starting a business in

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South Africa takes an average of 35 days, compared with the world average of 48 days. The report points out that South Africa can improve investment freedom, property rights, and freedom from corruption. It also said the judicial system is slow, primarily because of understaffing and inefficiency, and that black economic empowerment laws and unclear regulation are hampering foreign investment. Hong Kong is the world's freest economy for a 13th successive year, scoring 89.3 points on the index. (News 24, January 17)

Gold Propels JSE to Near Record Peak

19. (U) The Johannesburg Stock Exchange (JSE) raced to near-record highs on January 15, closing at [what did it close at?] few points below its best level yet, as a slight recovery in precious metals prices buoyed the local bourse. The gold index was up more than 2% and the market jumped to a close of 25,194 on January 15, just shy of the record 25,208 reached two weeks ago. Gold climbed to its highest level in nearly two weeks as a wobbly dollar elevated the precious metal's appeal as an alternative investment tool. (Business Day, January 16).

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